

MARSHALL ISLANDS VISITORS AUTHORITY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2005 AND 2004



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR GENERAL
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Visitors Authority:

We have audited the accompanying statements of net assets of the Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MIVA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

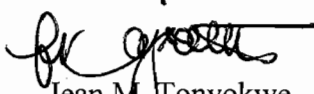
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIVA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Marshall Islands Visitors Authority as of September 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIVA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006, on our consideration of MIVA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

August 30, 2006


Jean M. Tonyokwe
Auditor-General

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis September 30, 2005 and 2004

This section of Marshall Islands Visitors Authority's annual financial report presents our discussion and analysis for MIVA's financial performance during the fiscal year that ended on September 30, 2005. Please read it in conjunction with the financial statements, which follow this section:

FINANCIAL HIGHLIGHTS

MIVA's net assets decreased by \$97,171 or 29% from \$337,196 in 2004 to \$240,025 in 2005. Operating revenues also decreased by \$114,730 or 32% from \$359,597 in 2004 to \$244,867 in 2005. Operating expenses increased by \$41,942 or 14% from \$300,096 in 2004 to \$342,038 in 2005.

FINANCIAL ANALYSIS OF MIVA

The statement of Net Assets (Pg 5) and the Statement of Revenues, Expenses, and Changes in Net Assets (Pg 6) provide an indication of MIVA's financial condition. MIVA's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates either an improvement in the financial condition of the organization.

A summary of MIVA's net assets is presented below:

	<u>2005</u>	<u>2004</u>
Current assets	\$ 229,830	\$ 330,158
Capital assets	28,805	19,933
Total assets	<u>\$ 258,635</u>	<u>\$ 350,091</u>
Current liabilities	<u>\$ 18,610</u>	<u>\$ 12,895</u>
Invested in capital assets	28,805	19,933
Unrestricted	<u>211,220</u>	<u>317,263</u>
Total net assets	<u>240,025</u>	<u>337,196</u>
Total liabilities and net assets	<u>\$ 258,635</u>	<u>\$ 350,091</u>

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis September 30, 2005 and 2004

As indicated above, total assets decreased by \$91,456 or 26% from \$350,091 in 2004 to \$258,635 in 2005. This is comprised of a decrease of \$100,328 in current and other assets and an increase of \$8,872 in capital assets. The decrease in current and other assets was due to decreased government funding for fiscal year 2005.

Total liabilities reflect an increase of \$5,715 or 44% from \$12,895 in 2004 to \$18,610 in 2005. No major liabilities exist as at the end of fiscal year. This amount comprises mostly of accrual of expenses paid after the fiscal year and employees' leave pay.

A summary of MIVA's Statement of Revenues, Expenses, and Change in Net Assets is presented below:

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 244,867	\$ 359,597
Operating expenses	<u>342,038</u>	<u>300,096</u>
<i>Change in net assets</i>	(97,171)	59,501
Net assets at beginning of year	<u>337,196</u>	<u>277,695</u>
<i>Net assets at end of year</i>	<u>\$240,025</u>	<u>\$ 337,196</u>

The Statement of Revenues, Expenses, and Change in Net Assets identifies the various revenue and expense items that implicit the change in net assets. As indicated above, MIVA's total revenues decreased by \$114,730 or 32% from \$359,597 in 2004 to \$244,867 in 2005. This decrease was mainly due to the decrease in funding from the RMI Government.

Below is a summary of the major components of operating revenues for MIVA in 2005 compared to 2004:

	<u>2005</u>	<u>2004</u>
Nitijela appropriation	\$ 222,763	\$ 298,500
Hotel room tax	14,059	53,779
Grants	-	3,880
Other	<u>8,045</u>	<u>3,438</u>
	<u>\$ 244,867</u>	<u>\$ 359,597</u>

MARSHALL ISLANDS VISITORS AUTHORITY

Management's Discussion and Analysis September 30, 2005 and 2004

Total expenses increased by \$41,942 or 14% from \$300,096 in 2004 to \$342,038 in 2005 contributing partly in the decrease of \$97,171 or 29% in Net Assets. This decrease was mainly due to decreased government funding, decline in hotel room tax, and increased advertising and promotional expenses.

Below is a list of the main contributors to the increase in operating expenses for MIVA in 2005 compared to 2004:

	<u>2005</u>	<u>2004</u>
Promotional materials	\$ 39,438	\$ 11,585
Trade fair & Show Participation	28,348	16,998
Advertising	20,495	5,929
Incoming Fam & Media Trips	14,487	-
Arno & Majuro Mooring Buoy Proj	10,000	-

CAPITAL ASSETS

Net Capital Assets increased by \$8,872 as a result of addition to Office Equipments & Vehicle and disposal of fully depreciated computer equipments and one vehicle. A summary of MIVA's current investment in Capital Assets presented below:

	<u>2005</u>	<u>2004</u>
Image library, motor vehicles, and equipments	\$ 93,090	\$ 98,738
Less accumulated depreciation	<u>(64,285)</u>	<u>(78,805)</u>
Net Capital Assets	<u>\$ 28,805</u>	<u>\$ 19,933</u>

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MIVA's counterparts with an overview of MIVA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request for additional information, please contact the Marshall Islands Visitors Authority, Finance Manager, at P.O. Box 5, Majuro, MH 96960.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Net Assets
September 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 138,324	\$ 245,891
Time certificate of deposit	20,000	-
Due from the Republic of the Marshall Islands	56,096	82,916
Hotel tax receivable	14,059	-
Prepayments	1,351	1,351
Total current assets	229,830	330,158
Capital assets, net	28,805	19,933
	\$ 258,635	\$ 350,091
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 8,307	\$ 3,430
Payable to affiliates	10,303	9,465
Total liabilities	18,610	12,895
Commitments and contingencies		
Net assets:		
Invested in capital assets	28,805	19,933
Unrestricted	211,220	317,263
Total net assets	240,025	337,196
	\$ 258,635	\$ 350,091

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Nitijela appropriation	\$ 222,763	\$ 298,500
Hotel tax	14,059	53,779
Grants	-	3,880
Other	8,045	3,438
Total operating revenues	244,867	359,597
Operating expenses:		
Salaries, wages and employee benefits	105,453	114,869
Promotional materials	39,438	11,585
Trade fair and show participation	28,348	16,998
Advertising	20,495	5,929
Rent	16,215	16,215
Marketing support	15,076	14,720
Media trips	14,487	-
Depreciation	12,571	8,219
Pacific Asia Travel Association meetings	10,407	9,320
Arno and Majuro mooring buoy project	10,000	-
Local events support	7,800	7,000
Tourism and environmental awareness	7,796	14,678
Communications	6,156	5,481
Office supplies	1,933	6,628
Miscellaneous	45,863	68,454
Total operating expenses	342,038	300,096
Change in net assets	(97,171)	59,501
Net assets at beginning of year	337,196	277,695
Net assets at end of year	\$ 240,025	\$ 337,196

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Statements of Cash Flows Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Operating grants received	\$ 249,583	\$ 294,214
Other operating revenues	11,925	57,217
Cash payments to suppliers for goods and services	(231,799)	(193,863)
Cash payments to employees for services	(95,833)	(105,318)
Net cash (used in) provided by operating activities	(66,124)	52,250
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(21,443)	(7,141)
Cash flows from investing activities:		
Transfer to time certificate of deposit	(20,000)	-
Net change in cash	(107,567)	45,109
Cash at beginning of year	245,891	200,782
Cash at end of year	\$ 138,324	\$ 245,891
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (97,171)	\$ 59,501
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	12,571	8,219
(Increase) decrease in assets:		
Due from the Republic of the Marshall Islands	26,820	(8,166)
Hotel tax receivable	(14,059)	-
Increase (decrease) in liabilities:		
Accounts payable	4,877	(7,026)
Payable to affiliates	838	(278)
Net cash (used in) provided by operating activities	\$ (66,124)	\$ 52,250

See accompanying notes to financial statements.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(1) Organization

The Marshall Islands Visitors Authority (MIVA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Tourism Act 1991 (Public Law 1991-109) and the MIVA Act (Public Law 1997-43, the Act). During the year ended September 30, 2005, Public Law 1991-109 was repealed in its entirety. MIVA began operations as a statutory corporation on October 1, 1997, in accordance with the Act, upon receiving its first operational budget. The objectives of MIVA are to develop and promote the natural, scenic, cultural, historical and recreational attractions of the Republic of the Marshall Islands. MIVA is funded through operational appropriations from the Nitijela (the RepMar Legislature).

MIVA is regarded as having a two-level structure comprising an eight-member Board of Directors responsible for setting policy, strategy and financial guidelines for the operation of MIVA and a Secretariat responsible for the day-to-day operation of the organization.

MIVA's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of MIVA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIVA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Receivables

All receivables are uncollateralized and are due from customers, both governmental agencies and hotelier businesses, located within the Republic of the Marshall Islands.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Net Assets

Net assets is reported in two separate components on the statements of net assets. Net assets invested in capital assets, net of related debt, is the equity share attributable to capital assets reduced by outstanding related debt. Unrestricted net assets represent net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Cash and Time Certificates of Deposit

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts and time certificates of deposit with initial maturity of ninety days or less. Time certificates of deposit with initial maturities exceeding ninety days are separately classified. As of September 30, 2005 and 2004, the carrying amount of cash and time certificates was \$158,324 and \$245,891, respectively, and the corresponding bank balance was \$159,542 and \$251,033, respectively, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, bank deposits in the amount of \$100,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. MIVA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Custodial credit risk is the risk that in the event of a bank failure, MIVA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MIVA does not have a deposit policy for custodial credit risk.

Fixed Assets

Fixed assets with a cost that equals or exceeds \$300 are capitalized. Such assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Image library	3 years
Computer equipment	3 years
Media equipment	3 years
Other equipment	4 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2005 and 2004, there is no accumulated vacation leave liability.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. MIVA is specifically exempt from this tax.

New Accounting Pronouncements

During fiscal year 2005, MIVA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. The implementation of these pronouncements did not have a material effect on the financial statements of MIVA.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of MIVA.

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIVA.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Risk Management

MIVA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MIVA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for past three years.

(4) Fixed Assets

Capital asset activity for the years ended September 30, 2005 and 2004, was as follows:

	2005			
	October 1, 2004	<u>Additions</u>	<u>Retirements</u>	September 30, 2005
Motor vehicles	\$ 42,184	\$ 20,495	\$ (22,689)	\$ 39,990
Image library	29,896	-	-	29,896
Computer equipment	13,578	-	(4,402)	9,176
Media equipment	4,405	-	-	4,405
Other equipment	4,008	948	-	4,956
Network hardware services	4,667	-	-	4,667
	98,738	21,443	(27,091)	93,090
Less accumulated depreciation	(78,805)	(12,571)	27,091	(64,285)
	\$ 19,933	\$ 8,872	\$ -	\$ 28,805

MARSHALL ISLANDS VISITORS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(4) Fixed Assets, Continued

	2004			
	October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2004</u>
Motor vehicles	\$ 42,184	\$ -	\$ -	\$ 42,184
Image library	29,896	-	-	29,896
Computer equipment	11,103	2,475	-	13,578
Media equipment	5,056	-	(651)	4,405
Other equipment	4,008	-	-	4,008
Network hardware services	-	4,667	-	4,667
	<u>92,247</u>	<u>7,142</u>	<u>(651)</u>	<u>98,738</u>
Less accumulated depreciation	<u>(71,237)</u>	<u>(8,219)</u>	<u>651</u>	<u>(78,805)</u>
	<u>\$ 21,010</u>	<u>\$ (1,077)</u>	<u>\$ -</u>	<u>\$ 19,933</u>

(5) Related Party Transactions

MIVA is a component unit of RepMar and, accordingly, is affiliated with all RepMar-owned and affiliated entities. MIVA utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions for the years ended September 30, 2005 and 2004 is as follows:

	2005	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 8,782	\$ 1,695
Marshall Islands National Telecommunications Authority	6,046	-
Marshalls Energy Company, Inc.	16,215	-
RepMar	-	<u>8,608</u>
	<u>\$ 31,043</u>	<u>\$ 10,303</u>
	2004	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 9,829	\$ 7,741
Marshall Islands National Telecommunications Authority	5,481	-
Marshalls Energy Company, Inc.	16,215	-
RepMar	-	<u>1,724</u>
	<u>\$ 31,525</u>	<u>\$ 9,465</u>

MIVA has entered into an office lease agreement with the Marshalls Energy Company, Inc. for a term of three years commencing October 1, 2002. Annual rent expense amounts to \$16,215.